



Agenda Item 11

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

10 April 2014

REPORT OF Assistant Director of Finance - Business Partnering and Internal Audit.

ITEM

SUBJECT Compliance with International Auditing Standards

SUMMARY

This report has been drafted at the request of the Chair of the Audit Committee so that the Audit Committee can demonstrate to the External Auditors and wider audience that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing. This report draws together much of the work that has been undertaken by the Audit Committee in the past year.

RECOMMENDATIONS

Members are asked to confirm that the report gives an accurate reflection of the reports that they have received and considered throughout the year. Members are also asked to confirm that they now have an overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "those charged with governance" under the International Auditing Standards.

**FINANCIAL IMPLICATIONS
CLEARED BY**

No
K Inman

**PARAGRAPHS
46**

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

**TEL NO.
0114 27 34435**

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO Cleared by:
Equality of Opportunity implications
YES /NO Cleared by:
Tackling Health Inequalities implications
YES /NO
Human rights implications
YES /NO
Environmental and Sustainability implications
YES /NO
Economic impact
YES /NO
Community safety implications
YES /NO
Human resources implications
YES /NO
Property implications
YES /NO
Area(s) affected
Corporate
Relevant Scrutiny Board if decision called in
Is the item a matter which is reserved for approval by the City Council? YES /NO
Press release
YES /NO

Sheffield City Council

Report to the Audit Committee April 2014

Compliance with International Auditing Standards (IASs)

Elements of the Council's System of Internal Control reviewed by the Audit Committee in order to form their opinion on the adequacy of control

Introduction

- 1) As part of the requirements of the International Auditing Standards (IAS) there is a requirement for those charged with governance (in the case of Sheffield City Council this is the Audit Committee) to formally demonstrate that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. Previously it was satisfactory for this assurance to be gained in a more informal manner for example by viewing the work of the Audit Committee.
- 2) This report has been drafted at the request of the Chair of the Audit Committee to highlight to the Audit Committee how they can demonstrate that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing.

Key Requirements of the Internal Auditing Standards

- 3) *The key elements that are required to be covered by Members in relation to the IAS are noted below.*
- 4) *Under International Auditing Standard on Auditing (UK&I)240 the Council's appointed External Auditors (in the case of Sheffield City Council KPMG LLP) are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Explicit to this is gaining confirmation from the Audit Committee of the following:-*
- 5) *(i) how the Audit Committee oversees management processes to identify and respond to such risks (ie both counter-fraud arrangements, and more general oversight of internal control arrangements), and
(ii) whether you have knowledge of any actual, suspected or alleged frauds affecting the Council.*
- 6) *A second International Standard on Auditing (ISA(UK&I)250) requires that auditors understand how those charged with governance gain assurance*

that all relevant laws and regulations have been complied with. Again an understanding of how this responsibility is discharged.

- 7) *Additionally those charged with governance must approve the financial statements, so an understanding as to how the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable quality assurance processes).*

Areas Covered in the Report

- 8) The following paragraphs summarise how the Members of the Audit Committee can gain assurance that key elements of the Council's internal control systems are being reviewed and reported to the Audit Committee. This is a consolidation report of items that are reported to the Committee throughout the year, so that the Committee can be assured that the various elements are covered: -

- Annual Accounts
- System of Internal Control
- Governance Arrangements
- Counter Fraud Arrangements
- Risk Management

- 9) The report will also highlight where it has been agreed to supply additional information over the coming year to the Audit Committee on specific issues. Officers of the Council and KPMG also attend the Committee to present reports and to answer questions raised.

- 10) The Audit committee comprises six elected Members drawn from the parties on a politically balanced basis. The Committee is chaired by Councillor Ray Satur OBE. The constitution of the group is strengthened by the inclusion of two independent non-voting Members; Rick Plews and Liz Stanley (who replaced Beryl Seaman in January 2014). These two individuals bring considerable skills and external experience to the committee. It is noted that the Audit Committee have taken a number of steps to help them undertake their roles and responsibilities. This has included taking independent advice and training. The Chair (or representative) has also attended the Core Cities Audit Chairs Group.

Annual Accounts

- 11) Those charged with governance (the Audit Committee) must approve the financial statements. In order to do this effectively, the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable QA processes).
- 12) The Director of Finance reviews these issues and reports upon the arrangements for the production of the Annual Accounts when he presents them at the appropriate time for sign off. The External Auditors expressed satisfaction with these arrangements in their report.
- 13) The Audit Committee review the accounts and question the Officers on items contained therein. Where additional information is requested, this has been provided to the committee promptly in a suitable form for discussion. In the current year the Audit Committee was satisfied with the arrangements and answers given when the accounts were presented.
- 14) The External Auditors audit the accounts and present a report on their findings to the September Audit Committee prior to the accounts being finalised (this is the ISA 260 report). This allows Members to have an independent opinion on the Accounts. Issues raised by the External Auditors are followed up by the Council Officers and progress is reported to the Audit Committee at appropriate intervals. The 2012/13 accounts were closed by the External Auditor within the required timescales. There was a delay in certification until the objections raised by the members of the public had been investigated and answered, but this did not affect the opinion on the accounts.
- 15) The accounts for 2012/13 were given an unqualified opinion and value for money conclusion by the external auditor. Issues raised by the External Auditor with regard to the Digital Region Project and the outstanding debt relating to South Yorkshire Trading Standards were discussed and additional information was requested and supplied to the committee by the relevant Officers on these two issues.

System of Internal Control

- 16) In March 2012 the Leader of Sheffield City Council signed off the revised Code of Corporate Governance. This Code of Corporate Governance sets out why good governance is important, explains how Sheffield City Council defines this, and explains how it will make sure that it takes place. This Code supports the work of the two key internal committees – Audit Committee and Standards Committee. This report was conveyed through the Council's web site to all members, staff and the general public.

- 17) There is an explicit requirement on Officers and Members to comply with the Council's Code of Conduct and supporting rules and regulations. As part of the sign-off process for the Annual Governance Statement, the Directors are required to confirm in writing that they have in place adequate systems that ensure compliance with the relevant rules and legislation pertaining to their area of activity and this is used as a basis of the production of the statement. They also confirm that they are managing the risks pertaining to their service.
- 18) The Annual Governance Statement was presented to the Audit Committee in July 2013 following sign off by the Chief Executive and Council Leader. The statement only contained two items and these have been monitored by the appropriate Scrutiny Boards with the Council.
- 19) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit Committee - the current plan was endorsed in April 2013. The new plan for 2013/14, the process for compiling the plan was contained with the report attached to the plan and noted by the committee at that time the new plan for 2014/15 is on the same agenda as this report.
- 20) Although copies of all reports are not shared with the Committee, the Assistant Director of Finance for this area ensure that all reports containing a "high opinion" are forwarded to the committee. Members of the committee can forward questions on these reports. Regular update reports are provided to the committee on the progress on the recommendations, contained within the high opinion reports. In addition, issues would be raised from other reports, where Internal Audit are aware of serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern.
- 21) The External Auditors have presented their report on grant certification work within the Council in January 2014.
- 22) The Chief Audit Executive (Senior Finance Manager) produces an independent annual report to the Audit Committee which highlights the work undertaken on the Council's control environment and her opinion on the control arrangements.

Governance Arrangements

- 23) The Council constantly reviews key governance documents, such as the Constitution and the Code of Corporate Governance to ensure that they are fit for purpose. These are then reported to the Audit Committee where appropriate.
- 24) This area is primarily the remit of the Council's Monitoring Officer, who provides reports to the Audit Committee on these issues. She also regularly attends the committee to answer any questions that Members may wish to raise.

- 25) A report is presented to the Committee at least twice per year that highlights the current issues with the Council's key external relationships. This also highlights the mitigation strategies that are being taken to reduce any potential risks and allows Members to question any issues raised. The latest of the reports was presented in January 2014.
- 26) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement.
- 27) A number of issues have emerged throughout the year for which specific reports and explanations were requested. The Committee has been provided with the required updates. These reports include an update on the Self Directed Support, Internal Audit report and the implementation of the Marketing Sheffield Internal Audit report. Reports were also presented on progress made concerning issues with South Yorkshire Pensions Authority, South Yorkshire Digital Region and South Yorkshire Trading Standards.
- 28) Internal Audit arrangements have changed over the past year following two issues. One was the need to amend the structure of the service and working arrangements internally following the retirement of the Chief Internal Auditor and the decision not to replace the post. The second major change was the change from compliance with the CIPFA code to the requirement to comply with the Public Sector Internal Audit Standards (PSIAS).
- 29) Both of the above issues have been highlighted to the Committee and reports were produced on how the service intended to deal with these issues. Independent training was provided to members of the Committee on the implications of the implementation of PSIAS. Update reports have also been provided in-year to the Committee on the progress of these issues. A declaration of endorsement has been prepared, which will formalise the independent access rights of the Chief Audit Executive to the Chief Executive of the Council. This process has been operating satisfactorily during the year, but will now be made explicit.

Counter Fraud Arrangements

- 30) Counter Fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee.
- 31) The Chief Audit Executive's annual report presented to the Audit Committee in September 2013 contained a summary of Counter Fraud activity during 2012/13.
- 32) A "Protecting the Public Purse" report is on the agenda for the Audit Committee this evening which summarises the National fraud activity identified by the Audit Commission survey, the number of investigations

within the authority in 2012/13 and highlights the actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.

- 33) Fraud awareness training has been provided across the Council and to Sheffield Homes. An E- Learning package has been developed and will shortly be made available across the Council through the learning pool system.
- 34) Individual incidents of a material scale will continue to be reported to the Audit Committee by Internal Audit.
- 35) The Audit Committee can call in officers to respond to issues raised by the Audit Commission and/or Internal Audit.
- 36) Internal Audit have conducted four pro-active counter fraud exercises in the current financial year, these have not highlighted any specific control weakness in counter fraud processes. Issues from these reviews have been discussed and actions agreed with the relevant managers in the areas concerned. The internal audit service will continue to conduct audits in this area in the coming year.
- 37) A revised Fraud Response plan was agreed and made available via the Council's intranet in March 2012 to Members and staff. This document is primarily intended to act as a guide for managers who suspect that theft, fraud or corruption is occurring within the authority either via their own observations or via reports from an employee, contractor, partner or member of public. An audit is planned for 2014/15 to examine the council's arrangements for undertaking fraud investigations.
- 38) The National Fraud Initiative (NFI) exercise for 2012/13 has taken place and work is almost complete across areas of the Council to examine and investigate the output from the review. The second phase of the NFI includes a data matching exercise of Single Person Discount (SPD) is currently in progress.
- 39) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.
- 40) Although considerable progress has been made in implementing fraud awareness across the Council and the policies that underpin this, the process will continue.

Risk Management

- 41) The Council's Corporate Risk Manager attended the committee in April 2013, November 2013 and again today. To present to members reports on the current risk management reporting arrangements within the Council.

- 42) A consolidated Corporate Risk Register was presented to the Committee in November 2013 and today. This highlights the significant risks of the Council and also the mitigation strategies in place to minimise them.
- 43) The Council's risk management framework has been made available on the intranet and training has been provided to all senior managers on its operation. The Council's Risk manager reviews the risks identified and offers support and challenge to services on their identified risks.
- 44) Performance monitoring information is reported to the appropriate Scrutiny Boards, in line with their agreed plans of work. The Council's Corporate Management Team (CMT) also received a quarterly presentation on performance across the Council and the Cabinet Members have direct access to the information relevant to their portfolio. Reporting of risk is now fully integrated with the reporting of service delivery and financial issues.
- 45) There is a requirement that all reports that are presented to the Council's Cabinet contain the key risks that relate to the subject area, these are scrutinised by the Members. There is also a process in place to record and manage the risks in relation to programmes and projects, the key risks are reported to Members as part of the progress reports that take place in relation to these projects.

Recommendation

- 46) Members are asked to confirm that the above report gives an accurate reflection of the reports that they have received and considered throughout the year. Members are also asked to confirm that they now have a significant overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "those charged with governance" under the International Auditing Standards.

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